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January 21, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Mr. William F. Caton
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

Re: CC Docket No. 92-296: Simplification of the Depreciation Prescription Process

Dear Mr. Caton:

Enclosed herewith for filing are the original and four (4) copies of MCI Telecommunications Corporation's Reply Comments in the above-captioned proceeding.

Please acknowledge receipt by affixing an appropriate notation on the copy of the MCI Reply Comments furnished for such purpose and remit same to the bearer.

Sincerely yours,

E. Dickerson/mlb

Elizabeth Dickerson
Manager, Federal Regulatory

Enclosure
ED/ms

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JAN 21 1994

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20054

In the Matter of	)	
	)	
Simplification of the Depreciation Prescription Process	)))	CC Docket No. 92-296

REPLY COMMENTS

MCI Telecommunications Corporation ("MCI") hereby submits its reply to comments filed December 17, 1993 in response to the Commission's Order Inviting Comments ("Order") filed by the Commission on November 12, 1993, in the above-captioned proceeding. As the initial step of the Commission's implementation of the streamlined depreciation prescription methodology the Commission adopted in the initial order in this docket,[1] the Commission proposed ranges of projection life and future net salvage factors for a number of plant accounts.

In its initial comments, MCI reiterated its support for the Commission's adoption of the Basic Factor Range Option for simplification of depreciation because it permits the Commission to retain an appropriate degree of oversight over the depreciation represcription process with which it has been charged, while allowing the local exchange carriers ("LECs") to benefit from administrative

[1] Simplification of the Depreciation Presciption Process, CC Docket No. 92-296, Report and Order, 8 FCC Rcd 8025 (1993) (Depreciation Simplification Order).

simplicity, conservation of resources, and greater flexibility.[2] Further, MCI acknowledged, that although maximum benefit would be realized only once the Commission has established ranges for all capital accounts, this partial Part 32 USOA investment account list represents a significant step toward achieving full simplification of the depreciation process. Finally, MCI commented that the Proposed Accounts and Ranges for Initial Implementation are reasonable, and it encouraged the Commission to adopt them without any modification.

Generally, only the large LECs filed comments in this proceeding. Almost unanimously, they argued: (1) the Commission must establish ranges for more accounts; (2) the Commission has established ranges for the plant accounts that are too narrow; (3) the Commission should set the ranges on a forward-looking, not historical, basis; and (4) in setting the proposed ranges, the Commission should have considered the depreciation lives used by AT&T and other interexchange carriers ("IXCs").

MCI continues to urge the Commission to adopt its proposed list of ranges as set forth in the Order. Ranges for additional Part 32 accounts will be added in the future, but the fact that not all ranges have been established at this point should not forestall initialization of the Commission's simplification program. Further, the commenting parties both mischaracterize the breadth of the ranges and misrepresent the need for them to be any wider than they are. Also, the focus of this proceeding was to simplify the carriers' filing

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[2] Id., para. 72

requirements,[3] and not to modify the underlying methodologies and depreciation philosophies, as a departure from the historical basis methodology would entail. Finally, the Commission was correct in analyzing only the depreciable plant of the major players operating in the specific market under consideration -- the interstate access market.

All carriers commenting in this proceeding argue that the Commission has not established ranges for all depreciable plant accounts. Bell Atlantic bemoans that "[w]ithout ranges in place, any benefits from depreciation simplification may not be realized until next century."[4] Southwestern Bell chides the Commission for "wast[ing] its time establishing ranges for dying categories," rather than "establish[ing] ranges for additional categories."[5] The United States Telephone Association ("USTA") urges the Commission to "promptly issue a second Order Inviting Comments for all accounts not covered by the November 12 Order."[6] Other carriers more specifically urge the Commission to adopt ranges "for the infrastructure accounts,"[7] i.e., "digital switching, digital circuit, aerial cable (metallic) and buried cable (metallic)."[8] Although the Commission

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[3] Id., para. 3.

[4] Comments of Bell Atlantic, p. 2.

[5] Comments of Southwestern Bell, p. 2.

[6] Comments of USTA, p. 10.

[7] Comments of Southern New England Telephone Company ("SNET"), p. 3.

[8] Comments of BellSouth, p. 2.

acknowledged that "technical problems" and "current resources"[9] limited its ability to expand on the initial listing of accounts included in the simplification process, LECs nonetheless criticize it for having offered "no justification for not having ranges in place for all accounts in time for those companies scheduled for triennial represcription in 1994."[10]

MCI believes the Commission should discount the LECs' expressed dissatisfaction with the width and number of ranges to which the Commission has initially applied its simplified depreciation process. All parties -- including the Commission and even MCI -- recognize that maximum benefits will be achieved once the simplified methodology is extended to "all plant accounts if feasible."[11] Failure to do so in one fell swoop, however, should not doom the Commission's efforts. Even though the LECs complain that the accounts the Commission initially selected generally do not represent significant levels of investment[12] or include the high technology accounts,[13] there is ample justification for selecting them first.

Simply put, the fact that these accounts contain limited investment and are not the focus of new technologies recommends them for initial

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[9] Depreciation Simplification Order, para. 4.

[10] Comments of Bell Atlantic, pp. 2-3.

[11] Depreciation Simplification Order, at para. 15.

[12] See, e.g., Comments of Ameritech, p. 6; and Comments of NYNEX, p. 2.

[13] See, e.g., Comments of BellSouth, p. 2; and Comments of Southwestern Bell, p. 4.

simplification. As such, the selection of the appropriate ranges by the Commission is likely to be less controversial,[14] and their adoption, therefore, provides a logical starting point for implementing the new procedures. Contrary to its fellow LECs, even GTE recognizes that "an argument can be made that certain technology-sensitive accounts (i.e., Digital Switching and Metallic Cable) could be excluded from the setting of ranges,[15] and that the ones selected by the Commission initially "could be set with little or no detailed analysis" because "there is ample similarity among price cap carriers to permit the prescription of ranges."[16]

Most importantly, the ranges the Commission has proposed are not so narrow as the commenting parties would suggest. Ameritech contends that the ranges were "limit[ed] to +/- one standard deviation."[17] BellSouth's analysis that "fewer than half of the opportunities for price cap LECs will qualify for simplification"[18] is based on a calculation that also characterizes the ranges as

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[14] By designating the "low technology" accounts first, the Commission and carriers can have experience with the new procedures before confronting those accounts the depreciable lives of which will be subject to extensive controversy and debate.

[15] Comments of GTE, p. 3.

[16] Id. For example, there is likely little variation among useful lives of service vehicles, yet the LECs undoubtedly will pursue individualized infrastructure implementation plans that could vary the useful lives of several categories of telecommunications plant among carriers.

[17] Comments of Ameritech, p. 3.

[18] Comments of BellSouth, p. 3.

being a single standard deviation wide. This simply is not the case, and the LECs fail to offer a shred of evidence to the contrary. The Commission has stated that its "analysis indicates that, because of variances among LECs' basic factors, a range width of one standard deviation around the mean could be either too narrow or too wide for some accounts."[19] To remedy this potentially "rigid" aspect of its proposal, the Commission began its analysis with the +/- one standard deviation range, but considered in addition, "other factors such as the number of carriers with basic factors that fall within this initial range and future LEC plans in determining the actual range width for any one account."[20] Criticism of the ranges as being a single standard deviation wide plainly is misplaced.

Similarly, the Commission also should reject any recommendations that it "should expand its ranges to encompass all currently-prescribed lives."[21] As MCI noted in its comments:

> If the Commission were to adopt ranges that were too wide, those carriers who have lagged behind the industry in network investment would be able to take advantage of ranges that reflected the accelerated depreciation that resulted from the more aggressive investment plans of other LECs. This increased flexibility could inappropriately reward carriers for modernization they did not pursue.[22]

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[19] Depreciation Simplification Order, para. 62.

[20] Id.

[21] Comments of US West, p. 6.

[22] Comments of MCI, p. 3.

Historically, LECs have been passing increased profits on to their shareholders, or using profits to finance foreign ventures, rather than investing them in their domestic infrastructure.[23] They cannot now -- as the industry is perched on the verge of competition -- be unleashed to select accelerated depreciation rates that harm their captive monopoly ratepayers through increases in revenue requirement or the ability to deflate earnings and lessen sharing obligations, while the stockholders are not asked to endure the financial implications associated with writing off overvalued plant. in contrast to those of competitive firms such as the IXCs --While MCI continues to recognize that the ranges the Commission has selected may not benefit "those carriers who have aggressively invested in network modernization,"[24] it continues to believe that this issue should be addressed in reconsideration and not be allowed to hamper implementation of the overall simplification effort. For the majority of the carriers, these ranges are sufficiently wide, and the LECs have not demonstrated otherwise.

The commenting carriers also are concerned that ranges should be set on a forward-looking basis.[25] MCI contends that whether depreciation is set on an historical or forward-looking basis goes to the heart of depreciation

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[23] Over the last six years, the Bell Operating Companies invested 60% of their cash flow into their networks. During the same time period, MCI invested 104% of its cash flow.

[24] Id., p. 4, f.n. 10.

[25] See, e.g., Comments of Bell Atlantic, p. 3; Comments of GTE, p. 5; and Comments of SNET, p. 3.

theory, and does not represent a relevant aspect of the Commission's efforts to streamline the administrative process.[26] Determining whether depreciation factors should be based on historical or forward-looking factors is not at issue in this proceeding, and the Commission should not be diverted from its efforts to achieve administrative savings.

If it were at issue, the Commission should reject the carriers' arguments that the historical approach does not "address forward-looking factors such as technological obsolescence and market changes because of increased competition."[27] Effective competition for exchange access simply does not exist -- as evidenced by the over 99 percent of access MCI (the second largest user of access services) purchases from LECs. Having anticipated the coming market changes, the LECs certainly could have already taken steps to upgrade their infrastructure with the increased earnings to which they have had access since the initialization of price caps. Had they made major investments in their infrastructure -- and they have not -- such recent investments would serve as primary drivers of the currently prescribed depreciation ranges.

The lack of effective competition in the access market today also supports the Commission's decision not to consider the depreciation lives of

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[26] As noted previously, the Commission's stated goals in this docket were to achieve: "simplification of the process, administrative savings, and flexibility." Depreciation Simplification Order, at paras. 3, 51. Significantly, the Commission did not solicit comment on the depreciation methodology adopted in 1980. Equal Life Group Depreciation Order, 83 FCC 2d 267 (1980), recon., 87 FCC 2d 916 (1981), supplemental opinion, 87 FCC 2d 1112 (1981).

[27] Comments of GTE, p. 5.

the equipment of AT&T and other IXCs such as MCI. Most of the LECs echo Ameritech's argument that "there is no justification for the Commission prescribing differing projection lives for AT&T than for the price cap LECs when both companies use similar equipment and provide similar services."[28] However, facilities-based competition in the interexchange industry is extensive and mature relative to the exchange industry, and competition has had the effect of shortening the depreciation lives of plant and equipment as old technology is replaced with new.[29] While competition is flourishing in the long distance market,[30] consumers of local exchange access simply cannot abandon one supplier for another as long distance customers can. The LECs' claims of competition are purely futuristic. Even once agreements such as the AT&T/McCaw or TCI/Bell Atlantic ventures are consummated (assuming they pass all regulatory hurdles), competition will not develop overnight. Under these conditions, it is inappropriate to consider the depreciable lives of equipment used in a competitive market when contemplating the appropriate lives for equipment used in a monopoly. Most importantly, these shorter lives of plant for AT&T reflect actual retirement of old plant that AT&T, as a

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[28] Comments of Ameritech, p. 5. See, also, Comments of SNET, p. 4 and USTA, p. 2, f.n. 3.

[29] Comments of NYNEX, p. 5 ("[t]he effect of competition is to shorten equipment lives . . .").

[30] The recent report by the Applied Economics Partners group illustrates the extent to which the long distance market can be characterized as competitive. Robert E. Hall, Long Distance: Public Benefits from Increased Competition, October 1993.

competitive carrier, has been compelled to pursue. It simply is not equitable to ask the IXCs to fund the LECs' accelerated depreciation through greater revenue requirements or higher price caps when the LECs' failure to invest aggressively in new technologies underlies the ranges the Commission is now prescribing. The Commission rightly considered only the LECs' historical investment patterns in establishing the ranges. This decision correctly does not set depreciation based on carrier promises of future renewed plant -- or on other companies' historical investment and depreciation patterns. Only by retaining the historically-based methodology -- and by adopting ranges that do include only the LECs' investments -- can the Commission retain the value of the critical investment/reward incentive that underlies current regulatory policy.

For the foregoing reasons, MCI urges the Commission to adopt its streamlined depreciation proposal as set forth in the Order.

Respectfully submitted,

MCI TELECOMMUNICATIONS
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January 21, 1994

STATEMENT OF VERIFICATION

I have read the foregoing and, to the best of my knowledge, information, and belief, there is good ground to support it, and it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on January 21, 1994.

E. Dickerson /mlb

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CERTIFICATE OF SERVICE

I, Susan Travis, do hereby certify that on this 21st day of January 1994, copies of the foregoing MCI Reply Comments for CC Docket 92-296 were served by first-class mail, postage prepaid, unless otherwise indicated to the parties on the attached list.

Susan Travis

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